

Montana Petroleum Assn.
Submitted by: Dave Galt
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Senate Bill 432

Mr. Chairman, Members of the Committee, for the record I am Dave Galt, executive director of the Montana Petroleum Association. MPA stands in opposition of SB 432, which mandates biodiesel across the state and eliminates customer choice.

We have concerns in three areas: quality, cost and the operational feasibility of this mandate. Let me explain.

Quality:

The state will need to ensure that all biodiesel meets the same standards. Our members have experienced quality problems with 100% biodiesel that we need to blend the fuel.

There are two issues here. One the specification for the pure biodiesel used for blending and secondly the specification for blended biodiesel. The test that everybody seems to be ignoring is a quality control test on the B-100 blend stock. The specifications and the testing in this bill are for the blended fuel sold to the general consumer. That is not enough. Current law requires that all pure biodiesel used for blending must meet ASTM D 6751 standards. No compliance checks have yet to be done. It is vital that the pure blend stock meets this specification. A recent study released by the National Biodiesel Board said that 50% of the biodiesel samples pulled between November 2005 and July 2006 were out of compliance with ASTM D 6751 specifications. One third of the samples exceeded total glycerin standards. Excess glycerin is what caused the fuel filter clogging problems in Minnesota that lead to suspension of the ban.

The test for compliance for ATSM D 6751 is expensive. DOLI says they can have the test done for \$600, our quote for a sample is \$1,616. That is an expensive test that is not even mentioned in the fiscal note. There needs to be legislative guidance to ensure that blend stock meets specifications. Furthermore, there should be some form of certification assurance required of the biodiesel producer and penalties for failure.

Cost:

Biodiesel has a contamination risk when transported by pipeline. Product pipeline owners in Montana will not allow biodiesel to be moved in the pipeline. Furthermore, in October 2006, the Colonial Pipeline, one of America's largest transporters on the east coast, stated they will not allow biodiesel in their lines for the same reason. Each fuel distribution terminal will need to construct receiving, blending and storage facilities. My members tell me that the cost of blending fuel at the terminal rack is estimated to average \$2 million dollars per facility. Rack facilities will have to have heated storage for the B-100 and heated pipelines to the dispensing unit.

This figure represents just the capital costs to add the receiving, storage and blending equipment not the handling and transportation costs of the biodiesel, or costs to acquire additional land if it is necessary to expand a facility. There are a total of 11 terminal facilities in Montana making the minimum capital cost for receiving, blending and storage of \$ 22 million dollars. Several of these locations have plot space limitations. The space needs also do not factor in the additional land needs at the terminals in the event the ethanol mandate goes into effect.

In addition, it is reasonable to point out that, if the goal of mandated biodiesel blending is to displace petroleum-based diesel, much if not all of the benefit will be consumed in transporting the biodiesel to multiple sites across the state for delivery at terminals.

Operational Issues:

There is simply not enough time to plan, design and construct blending facilities under the parameters of SB 432. It will take one year to have all the infrastructure in place to cover Montana's rack facilities. Passage of this bill with force facility owners to begin construction immediately to ensure that we can meet the effective date in Section 8. 30 days simply is not enough time.

Please look Section 3, which says that all diesel fuel sold for internal combustion engines must contain a percentage of biodiesel by volume. Is this meant to say that every gallon of fuel must have the appropriate percentage of biodiesel blend, or will the requirement be aggregated? It is extremely difficult if not impossible to ensure that every gallon will have 2% biodiesel.

Please look at the temporary exemptions in Section 5. How is the cost exemption supposed to work? Does this mean if the price of blended diesel exceeds the cost of 100% petroleum diesel by more than 15% the mandate can be suspended? If that is the case, restated it means the proponents of this bill are willing to pass a 15% cost increase to all diesel users, including home heating oil, so we can promote biodiesel. Or, is this meant to say that if the wholesale cost of B-100 exceeds the cost of petroleum based diesel then the mandate will be lifted? The way it reads I would suggest that the first method is correct.

Going further into the temporary exemptions, I see that this bill recognizes that engine performance problems are an issue. The actual application of this temporary exemption needs discussion. How will the department make the decision to lift the mandate based on vehicle problems?

Let's think of all the diesel users we have today:

- Heavy trucks
- Construction and mining equipment
- Emergency generating equipment

Light duty personal pickup trucks

Boats

Recreational vehicles

Emergency vehicles, (especially where they do not have heated garages)

Home heating furnaces

In the state of Minnesota, a state with a B2 mandate, filter clogging problems still exist in cold weather resulting in equipment failure. Are we ready to put increase the risk of cold weather problems to these consumers?

Mandating biodiesel has numerous potential problems plus significant cost which will ultimately be borne by consumers. We don't have the infrastructure in place today, to handle a biodiesel mandate. At the same time we do have outlets now for biodiesel fuel, we suggest you continue to let the market develop this product. Please do not pass SB 432.

MPA urges you to TABLE Senate Bill 432.